

Establishment of a property management holding company for the efficient management of local government assets

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The purpose of the operation of the system of local governments is to meet the qualitatively and quantitatively specified supply demands of the local society at the highest possible level. Today the local governments provide more than half of public services via corporations and public-service organisations. The form of economic organisation is a method of utilisation of the local government's assets, which is suitable for the performance of any public-service duties. It releases the assets of the local government, exempts it from operative control, and perhaps involves also private capital. The major aim for these organisations is to become reliable and many-sided and successful ventures of public interest in the service provision, telecommunication, financial, logistic and IT markets. The owners expect that they perform local public-service duties at the highest possible level and with the highest possible efficiency, and free assets are explored and utilised. The operation of public utility companies as economic organisations of holding structure requires cost-efficiency, prioritises the increase of efficiency, demands expansion, and significantly improves communications and marketing of the group of companies. This may be targeted and implemented in a changes macroeconomic environment only with the development of a new economic structure.

1. Reasons for modernisation of the administration system

Fiscal tensions are expressed in the economy of local governments, the central financing system cannot quickly and efficiently accommodate to the system of local governments. Regulation of sources inducing depletion of assets is characteristic of the sector of local governments, i.e. mandatory duties are not fully covered by normative governmental contributions.

We can state that the consolidated public debts of the sector of local governments are increasing, and its money reserves and portfolio within the state budget are gradually decreasing.

The most significant factors inducing the change include the changed macroeconomic environment (convergence programme, etc.), and the consequently expected global reform of the financing and administration system of the sector of local governments.

The economic programme as well as the budget concept must be adapted by the local governments to the budget periods and planning cycles of EU. (2007-2013) As regards the content of the economic programme it should contain not only major targets, but also medium run financial plans (for 7 years) supported by numerical figures. The methodology of rolling planning must be applied, i.e. the annual breakdown of the medium run plans may be the draft budget regulation for the given year, which must be always modified for the next years in accordance with numerical effects of the actual duties and concepts. The application of the planning structure must be expanded to cover also economic organisations performing duties of local governments and institutions. A study has been issued by Kóródi on the topic.

A "minimum stability regulation on local governments" would be necessary for the performance of mandatory tasks and provision for the relating sources irrespective of the cycles of local governments, which guarantees possibilities of income, distribution of tasks among sectors, beyond local governments, management of budget organs, use of public funds, closing account.

Local tax incomes (local business tax, property tax, etc.) must be predicted - in compliance with the planning cycle of EU - to be able to plan own sources within the financing system of local governments, and a medium term tax policy concept should be worked out. It would be worth using the study by Illés, which gives an international overview of financing of and taxation towards local governments.

Slow reforms are expected also in reporting by and bookkeeping obligations of the budget organs. It is a problem, that budget accounting does not reflect the costs of public services, the financial status, and the administrative and functional reports are not sufficiently reliable, and deviate also from the international practice. Kassó made a study on reporting by budget organs.

A global reform of the asset management of local governments is also required. According to Varga, who presents interrelations between asset management and the financial system in full detail, and also defines his position about the establishment of a management system of local governments with a business management approach.

2. Establishment of economic organisations of holding structure, reasons for organisational changes

Today local public-service duties are performed by the local governments with a number of modern methods. Solutions are common in that they intend to involve resources beyond the budget, and costs are saved, the level of public services increases, and better efficiency is achieved with their use. In addition, involvement of resources may lead to investments and developments, which the local governments cannot implement independently.

Marketable assets are usually managed and utilised via the offices and institutions of the local governments. Within less marketable assets public utilities and other assets of public utility nature are managed by economic organisations owned by the local governments, while public buildings are managed by either institutions or the authority itself. Marketable assets are operated with variations of these.

As a principle of operation of the organisational system relating to asset management the asset designated for utilisation does not become the property of the asset manager during the transaction, and decisions on the utilisation are made at the level of local governments. Asset management functions must be separated from administrative and official tasks relating to assets, and even from budget management.

Benefits of the asset managing organisations are as follows: instant responses to business opportunities without the need of formal methods are possible, the management is not disturbed by the client service, the activity may be incited, staff management is not restricted.

In Hungary local public services, asset management and utilisation are made via contracting, establishment of public funds and foundation of economic organisations as possible forms of operation.

During contracting public services are provided by the local government not within its own organisational system, but via appointment of external legal and private entities. This may be contract of appointment or work, concession contract or labour contract.

Establishment of public funds. Most of them are established for public services, however, the public service itself and the relating public authorities may not be assigned to the public funds, and obligations of supply are not affected either. In general, they perform non-profit and human service duties. In addition, they are also responsible for the promotion of training and education (support of students in disadvantageous situations, special needs education), assistance in the

maintenance of health and social institutions (care for elders, technological development), assistance in activities of youth communities (student organisations, school papers), assistance in the operation of civil organisations (public security, public initiations), assistance in sports (student and leisure-time sports, tourism), assistance in cultural activities (public education, museum, library, gallery).

Foundation of economic organisations. A method of utilisation of assets of local governments, which is suitable for the performance of any public-service duty. It releases the assets and capital of the local government, exempts it from operative control, and involves private capital. Its organisational forms may include public limited companies (generally created via reorganisation of companies of councils), limited liability companies (communal services, remote heat service, etc.) and public benefit companies (generally created to meet social common needs).

3. Organisational structure of holdings

The aim of the organisation is to create an asset managing company owned by the local government, which controls the independent economic organisations to make them achieve better economic results and higher efficiency. This aim may be achieved by contributing shares in fully owned ventures to the company of the local government engaged in asset management.

The holding is appointed to validate benefits resulting from the common operation of the companies via intensive validation of interests of owners, to increase the profit, and to reduce financing by local governments. It is also responsible for professional management and control of the member companies, optimisation of the operation of the group of companies, development of a common procurement system, search for most suitable forms of capital involvement, drawing of an active policy of expansion, exploration and involvement of new markets. Companies formerly owned by it report to the new owners from the moment of reorganisation, and the board of representatives must supervise only the holding. This solution makes management of local governments more transparent, terminates the leading organs, and the successfully operating group of companies may reduce financial difficulties of the local governments.

Holding is a top or interim unit within a concern organisation, which globally manages the whole organisation of the concern by means of strategic and/or

financial asset management tools in a form separated also legally.¹ Basic units of the organisation are member companies with titles of independent legal entities, which are directly connected with the market, and perform tasks of manufacture, sales and services within the scope of the group of companies.

4. Tasks and scopes in holding organisations

Hereinafter I shall discuss strategically controlled organisations within the holding types by scope. As a principle the controlling company should not have an operative function, and should influence the controlled companies with strategic assets. The controlling unit assumes a significant coordination rule, and provides independency for its companies, and also makes use of the benefits of a large organisation.

Their main tasks should be as follows:

- harmonisation of the concern strategy with the targets of the member companies,
- provision for resources for the implementation of highlighted and future tasks,
- capital, liquidity and result planning covering the whole group of companies,
- decision on major investment issues in compliance with a strategy focused on diversification and fundamental capacities,
- special development of management,
- operation of master units with advising and control functions,
- supply of central services.

In general, the following essential functions are included in the central organisation of the strategic holding:

- development of the targets of the group of companies, planning and coordination of the holding,
- approval of operative plans and budgets relating to the group of companies, central controlling, human policy, management training,
- programme planning, provision for and allocation of financial assets, risk management.

Strategic management is a frequently used type of concern control, particularly among large groups of companies.²

1 Source: Brühner-Dobák-Tari : Groups of Companies, 2002. Aula

2 Source: Brühner-Novák-Tari: Groups of Companies, 2002. Aula

By creating a local management holding activities supplementing and supporting management are centralised, the member companies become responsible for the most efficient performance of their basic duties, and the responsibility of the managers is restricted to special tasks.

The local government exercising the rights of owner may set the following targets for the holding:

- better validation of the interests of the local government,
- true special control and management of the member companies is achieved,
- harmonisation of the concern strategy with the targets of the member companies, optimisation of the resources at the level of the group of companies,
- contribution of the controlling company to value creation, realising synergies,
- making use of market benefits resulting from the size, establishment of a common logistic, procurement and investment system,
- rationalisation of the operation of the individual companies, improvement of efficiency,
- support of capital contributions by member companies
- research for possibilities of investment and ventures,
- acquisition of new market positions,
- contribution to the reduction of budget loads of local governments, to the acquisition of additional resources by involving external resources,
- contribution to the support of the non-profit sector.

Efficient financial benefits, management organisation benefits and direct ownership benefits may be achieved by creating a holding.

Financial benefits are represented by factors manifesting themselves shortly already after building-up of the holding organisation, offering actual savings for the group of companies. The most important task after creation of a holding is to develop efficient financial management, which may realise uniform management of the financial assets of the group of companies. Due to this management of liquidity, optimisation of investments become simpler on both long and medium terms. Appearance on the financial market may be more efficient, since more beneficial positions may be achieved by it at the financial institutions than as a single company. The utilisation of free financial assets may be better controlled, since the members of the group of companies grant inner credits to each other with significantly lower interests than interests charged on the financial market. More favourable procurement positions may be achieved, entailing financial benefits, too, since the use of telecommunication services, procurement of stationeries, purchase of fleets of vehicles may result in significant savings. Procurements of high value are organised by the holding, specific procurements

are organised by the member companies. The benefits of size cost-efficiency may be also used via the coordination activity of the holding.

Management and organisational benefits relate to more efficient operation and better control of the group of companies. By creating an integrated information system a management information system may be built out in accordance with uniform principles within the group of companies, which is indispensable for the support of management decisions. In addition to the information system, financial, accounting systems as well as planning and reporting processes may be also standardised. Due to the common rules and modern information systems the transparency of the companies improves, their performance may be better assessed and qualified. Decision making becomes faster and more reasonable, the responsibility of managers covers mainly special issues, the duties of financial managers are supplemented with the operation of controlling, planning and reporting systems. In issues beyond the decision making scopes of the managers of the companies the management of the holding must be consulted instead of directorates of the individual companies.

The staff also decreases, since directorates and supervisory boards are liquidated, leading to staff reduction, and the staff of the new body will be much lower. The holding provides also inner services, since it can improve the operation of each member company via advising, management, organisational activities, transfer of knowledge.

Direct ownership benefits derive from the fact that loads relating to the management of and accounting with several companies are assumed by the holding, and then the local governments assigns tasks only to the holding, and makes them report on their activities. The organisations of the local governments report to the local board of representatives, who exercise the rights of owners. In practice, the more companies the more business plans, quotations, reports, labour right issues. A part of the companies of the local governments enjoy significant ownership supports. By integrating these companies into groups controlled by a holding the financial role of the local government may significantly reduce.

The work organisation must be developed on the basis of the functions of the management holding, i.e. essential planning, finance, accounting, controlling, human policy, investments, asset management and organisation development must be centralised here for the whole group of companies. Based on their equal ranking the organisational units subordinated to a common superior cooperate with each other to improve efficiency. If any issue arises between them, the opinion of the common superior is guiding. In addition, disagreements are settled by the president-general director. Subordinations are validated by the managers mainly via performance of their instructing, controlling and accounting duties.

5. Future prospects, closing thoughts

These days it is not common for the local governments to operate their assets efficiently via development of a structure managed by a holding. By founding Vagyonkezelő Zrt. the intention of the local government is to create a modern operational and management system beyond the fact that it can validate its interests more intensively and achieve transparent management. The strategic aims include the creation of a reliable, many-sided and successful venture of public interest on the servicing, telecommunication, financial, logistic and information market, and a customer-oriented operation of the group of companies with the maximum efficiency and quality, by building out modern operational and management systems.

Long term targets are the increase of the efficiency, cost saving, exploration and exploitation of free assets, consistent management of active debts, exploration and exploitation of the possible synergies, expansion, management of sources, improvement of the service level, improvement of the customer service operation, communication and marketing of the target group, self-financing of the group of companies, and development of the organisation.

The increase of efficiency, which is supported mainly by profile clarification so that the member companies can focus on efficient performance of their basic activities. The operation should aim at the improvement of the efficiency of management at the member companies, and consistent rationalisation of the individual member companies.

Cost-efficiency, which must become characteristic of the operation of the group of companies, and includes also the exploration of inner reserves beyond the optimal and reasonable use of resources.

Exploration and exploitation of free assets, during which the rational management of resources, exploration of free assets and their exploitation are highlighted tasks in order to promote the targets of the group of companies.

Consistent management of receivables in order to reduce outstanding debts at the member of the group of companies. For this purpose closer connections must be maintained with the part of clients, which represents a higher risk.

Reorganisation of the group of companies into a holding offers the possibility of exploration and exploitation of the potential synergies. To achieve the targets the economic organisations must explore their free capacities, and compare them against the demands, and must make use of benefits resulting from their common appearance by having the service providers of the group of companies compete with each other.

The members of the group of companies must try to become regional market leaders within their own scope of activities. By temporarily regrouping its resources the group of companies contributes to the success of expansion, and also to the possibility of involvement of external resources.

Asset management, achievement of expansion targets, provision of high-standard services, and achievement of city policy targets presume that supplementary external and internal resources are required for the group of companies.

Improvement of the level of services was one of the fundamental aim of ownership by reorganising the group of companies into a holding. Improvement of the competitiveness and acceptance of the companies is possible only in this way. The target is to provide user-oriented reliable services via the already launched and realised processes. Improvement of the customer service and attentive, correct customer service are features of market-oriented economic organisations. The possibility of common customer service for public-service companies must be achieved.

Common communication and marketing for the group of companies is a very important task. It is not sufficient for the member companies of the holding to do their best to increase efficiency, and to improve their parameters, they need also proper communication of the achieved results. For this purpose a marketing advisor must be employed. The aim is to have the group of companies appear as one unit to the external world.

Within self-financing of the group of companies short and medium term plans must be drawn in order to minimise supports by local governments by exploring their inner reserves and external resources, and efforts must be made to build out an "inner bank".

Development of the organisation should be evaluated not as a result, but as a means of the implementation of the strategy in respect of expectations of the owner and the objectives to be achieved by the target group.

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